

# **Legislative Audit Division**

**State of Montana**



**Report to the Legislature**

**November 2000**

## **Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2000**

### **Department of Corrections**

**This report contains 10 recommendations to the Department of Corrections. Issues in the report include:**

- < Improving compliance with state accounting policies.**
- < Compliance with state laws regarding indirect cost recovery and inmate financial transactions.**
- < Improving payroll procedures to ensure consistency.**
- < Compliance with department policy.**

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, was issued on March 30, 2000. The Single Audit Report for the two fiscal years ended June 30, 2001, will be issued by March 31, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

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Office of Budget and Program Planning  
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# LEGISLATIVE AUDIT DIVISION

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November 2000

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report of the Department of Corrections for the two fiscal years ended June 30, 2000. This report contains 10 recommendations concerning compliance with state laws regarding indirect cost recoveries, inmate financial transactions, improving compliance with state accounting policies and procedures, improving payroll procedures to ensure consistency, and compliance with department policies. The department's written response to audit recommendations is included at the end of the audit report.

We thank the director and his staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

*(Signature on File)*

Scott A. Seacat  
Legislative Auditor

# **Legislative Audit Division**

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## **Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2000**

## **Department of Corrections**

Members of the audit staff involved in this audit were Laurie Barrett, Christopher G. Darragh, Laurie Evans, Emlyn Neuman-Javornik, Brenda Kedish, Jim Manning, and Charles Nemec.

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## Appointed and Administrative Officials

**Director's Office** Rick Day, Director

**Professional Services** Sally Johnson, Division Administrator

**Administrative Services** Joe Williams, Division Administrator

| <b>Board of Pardons</b> |                     | Term<br><u>Expires</u>    |
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 Mary Fay, Chief, Probation & Parole Bureau  
 Tim Ferriter, Superintendent, Riverside Youth Correctional Facility  
 Dan Maloughney, Superintendent, Treasure State Correctional Training Center  
 John Paradis, Juvenile Placement  
 Landy Petrie, Program Director, Billings Transition Center  
 Teri Young, Program Director, Youth Evaluation Program  
 Sheryl Hoffarth, Prerelease Centers Unit Manager, Female Offenders  
 Doug Barnes, Prerelease Centers Unit Manager, Male Offenders

**Secure Custody Facilities** Mike Mahoney, Warden, Montana State Prison  
 Jo Acton, Warden, Montana Women's Prison  
 Steve Gibson, Superintendent, Pine Hills Youth Correctional Facility

**Montana Correctional Enterprises** Ross Swanson, Division Administrator  
 Glen Davis, Industries Director  
 Bill Dabney, Ranch Director  
 Steve Hartman, Dairy Director

For additional information concerning the Department of Corrections, contact Ellen Bush, Public Information Office, at:  
 PO Box 201301  
 Helena, MT 59620-1301  
 (406) 444-7461  
 e-mail: ebush@state.mt.us





## Report Summary

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We performed a financial-compliance audit of the Department of Corrections for the two fiscal years ended June 30, 2000. The previous audit report contained 12 recommendations.

We issued an unqualified opinion on the financial schedules contained in this report. This means the reader may rely on the presented financial information and the supporting detailed information on the states accounting records.

This audit report contains 10 recommendations to the department. The recommendations relate to compliance with state accounting policies, compliance with state laws, compliance with department policy, and improving payroll procedures to ensure consistency.

The listing below serves as a means of summarizing the recommendations contained in the report, the departments' response thereto, and a reference to the supporting comments.

### Recommendation #1

We recommend the department record expenditure abatements and receivables in compliance with state accounting policy. . . . . Page 8

Department Response: Concur. See page B-3

### Recommendation #2

We recommend the department:

- A. Implement procedures to ensure fixed assets are recorded in compliance with state accounting policy.
- B. Improve supervisory review and analytical procedures to detect asset recording errors. . . . . Page 10

Department Response: Concur. See page B-3

### Recommendation #3

We recommend the department implement procedures to ensure financial activity related to the Dawson County regional prison is properly recorded. . . . . Page 12

Department Response: Concur. See page B-3

### Recommendation #4

We recommend the department properly eliminate inactive subsidiary detail ledgers on the accounting records. . . . . Page 13

Department Response: Concur. See page B-4

## **Report Summary**

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|                           |   |
|---------------------------|---|
| <u>Recommendation #5</u>  | We recommend the department claim indirect costs to the fullest extent possible as required by state law. . . . . Page 14   |
|                           | Department Response: Concur. See page B-4   |
| <u>Recommendation #6</u>  | We recommend the department execute a written agreement with the Department of Administration for construction projects using federal funds to clarify compliance responsibilities. . . . . Page 15       |
|                           | Department Response: Concur. See page B-4   |
| <u>Recommendation #7</u>  | We recommend the department clarify its policies for recording leave and the determination of overtime and explain the policies to all employees to ensure consistent payroll processing. . . . . Page 17 |
|                           | Department Response: Concur. See page B-4   |
| <u>Recommendation #8</u>  | We recommend the department develop and implement policies to limit inmate financial transactions as required by state law. . . . . Page 18   |
|                           | Department Response: Concur. See page B-4   |
| <u>Recommendation #9</u>  | We recommend the department ensure policies for gate money are consistently followed at the Women's Prison. . . Page 19   |
|                           | Department Response: Concur. See page B-4   |
| <u>Recommendation #10</u> | We recommend the department implement contracting policies and procedures which ensure contracts are signed in a timely manner. . . . . Page 20   |
|                           | Department Response: Concur. See page B-5   |

# Introduction

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## Introduction and Scope

We performed a financial-compliance audit of the Department of Corrections (department) for the two fiscal years ended June 30, 2000. The objectives of the audit were to:

1. Review the department's control systems and make recommendations for the improvement of management and internal controls of the department.
2. Determine if the department complied with applicable state and federal laws and regulations.
3. Determine the implementation status of recommendations from the prior audit.
4. Determine if the department's financial schedules present fairly, in accordance with state accounting policy, the result of operations for the audit period.

This report contains 10 recommendations to the department. Areas of concern deemed not to have a significant effect on the successful operation of department programs are not specifically included in the report but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

As required by section 17-8-101(6), MCA, we audited and are reporting on the reasonableness of Internal Service Fund fees and fund equity balances at the department. We reviewed the Internal Service Fund activity of the prison industries training program and determined the rates are not commensurate with costs as required by law. However, because this program provides training and education for inmates, the legislature approves a partial subsidy by a General Fund appropriation.

## **Introduction**

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### **Background**

The Department of Corrections enhances public safety by holding adult and juvenile offenders accountable for their actions against victims through custody, supervision, treatment, work, restitution, and skill development. The following paragraphs describe the organization of the department at the end of fiscal year 2000. Also included on page 4 is a current organizational chart of the department.

The department consists of four programs: Administration and Support Services, Community Corrections, Secure Custody Facilities, and Montana Correctional Enterprises (MCE).

### **Administration and Support Services**

Administration and Support Services consists of the Director's Office, Administrative Services, and Professional Services. The Director's Office provides public and victim information, organizational development, and internal audit services. Administrative Services provides budget, accounting, automation, projections, human resources, contract management, and facility management services. Professional Services includes legal services, policy management, investigative services, training and staff development, security management/emergency preparedness services, health services management, contract placement, and juvenile detention center licensing.

The Board of Pardons and Parole, which is attached to the department for administrative purposes only, oversees Montana's inmate parole and furlough programs. The board also reviews requests for executive clemency and makes recommendations to the Governor concerning those requests.

### **Community Corrections**

The Community Corrections Division provides supervision and alternative programs for offenders. It consists of the Juvenile Residential Placement Unit, Interstate Compact Unit, Riverside Youth Correctional Facility, Adult Probation and Parole, Juvenile Parole, Juvenile Transition Centers, Treasure State Correctional Training Center, and private prerelease centers. This division provides supervision for 80% of the more than 8,500 offenders,

adult and juvenile, in the state correctional system through its eight activities.

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### **Secure Custody Facilities**

Secure Custody Facilities include the Montana State Prison (MSP), Montana Women's Prison (MWP), and Pine Hills Youth Correctional Facility. These facilities provide for the custody, treatment, training, and rehabilitation of adult male and female and male youth criminal offenders. The male prison system now encompasses a public safety partnership which includes Montana State Prison, county governments, and private enterprise. Facility locations include facilities in Missoula, Great Falls, Glendive, Shelby, and Deer Lodge.

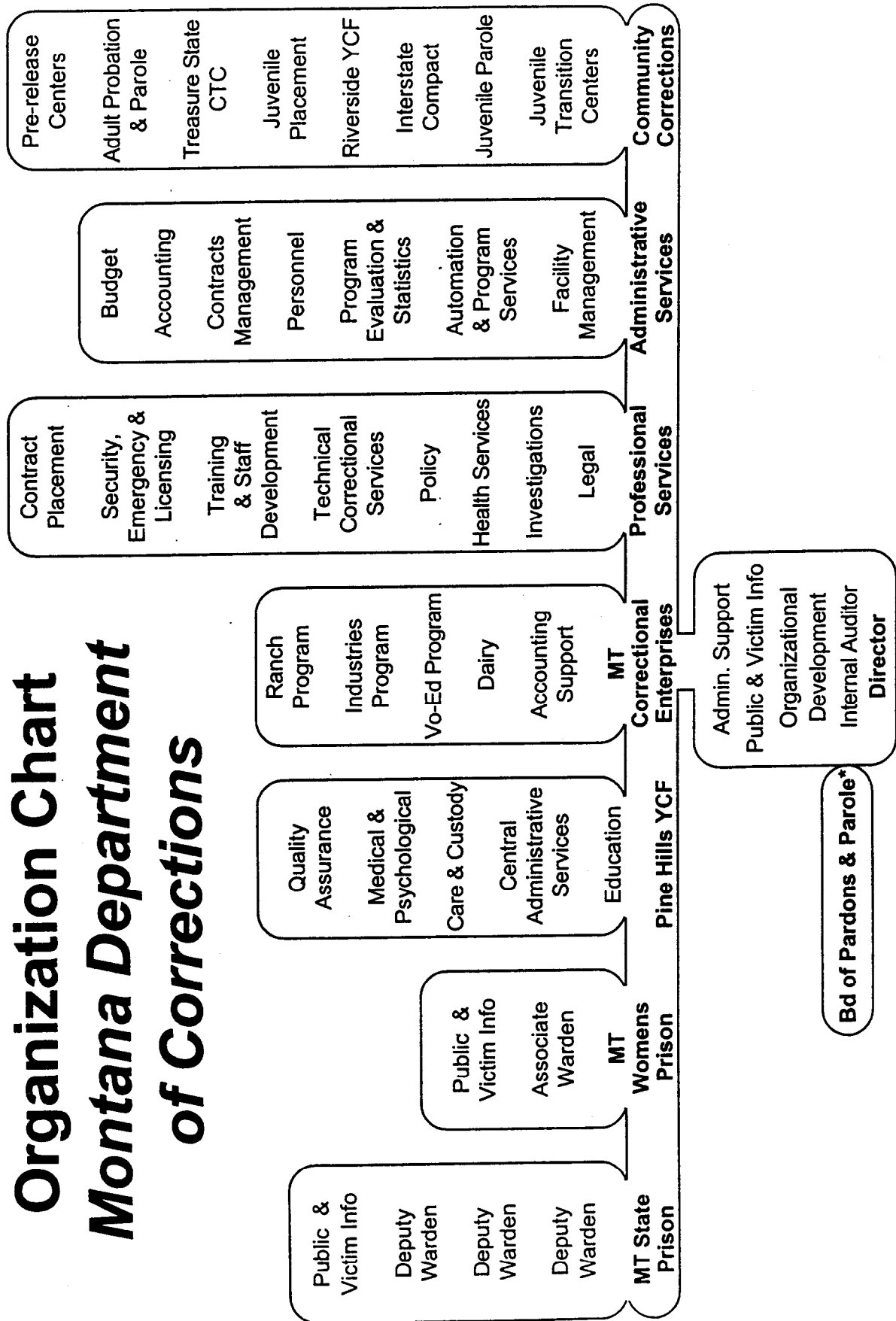
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### **Montana Correctional Enterprise**

Correctional Enterprise Division consists of the Prison Ranch and Dairy, Industries/Training, and the Industries Complex. The ranch provides dairy products to state institutions and beef cattle, grain, and surplus raw milk to the open market. The Industries/Training program provides equipment and vehicle repair to state agencies, and meat and vegetable products to state agencies. The Industries Complex provides manufactured products (furniture, upholstery, print, signs, license plates, and fencing) to state agencies and local governments. A local dealer network is used to sell furniture products manufactured by the inmates. There are currently five dealerships in the state handling these products. Each dealer is required to have \$15,000 in annual sales and maintain \$3,000 of product inventory.

# Organization Chart

## Montana Department of Corrections



\* Attached administratively

Source: Department of Corrections

## Prior Audit Recommendations

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### **Prior Audit Recommendations**

Our previous audit report of the department, covering the two fiscal years ended June 30, 1998, contained twelve recommendations. The department implemented eleven recommendations and partially implemented one recommendation. The recommendation partially implemented relates to unsigned, untimely contracts discussed on page 19 of this report.





# Findings and Recommendations

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## Accounting Issues

During our audit we noted several instances where the department could improve its compliance with state accounting policies and improve the quality of its financial information recorded on the state's accounting system. Some of the accounting issues we noted in our audit might have been detected or corrected by an improved system of supervisory oversight and review. The following sections discuss accounting issues noted in our audit.

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## Improper Expenditure Abatements

During our audit we noted the department improperly abated \$466,420 in General Fund expenditures for the Community Corrections Program paid to providers for juvenile placement costs. By abating the expenditures, the General Fund appropriation balance was restored by the amount of the original expenditure. If the expenditures had not been abated, the General Fund appropriation for the program would have been overspent by approximately \$339,000 in fiscal year 1999-2000. However, the department could have requested a program transfer to move appropriation authority. At fiscal year-end, the total remaining General Fund appropriation authority was sufficient to cover the expenditures.

According to department employees, the expenditures were incurred due to construction delays in completing the new facilities at Pine Hills. Because of the construction delays, the department incurred additional expenses for placement costs at private contract facilities. According to department officials, the contractor was responsible for the additional costs. The department abated \$466,420 in expenditures and established a receivable from the contractor for the same amount. The department's intent is to recover the costs from the contractor.

The department's accounting for the activity is not in compliance with state accounting policy. First, the costs for the juvenile placements are department program costs, regardless of any delays or extenuating circumstances. The department received the services and incurred the costs as part of program operations. Under state accounting policy, the costs are part of the Community Corrections Program for juvenile placements. The costs were not incurred for the benefit of any other party and do not meet the criteria for

## Findings and Recommendations

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abatements under state accounting policy. Secondly, under state accounting policy, there is no basis to justify recording a receivable for the placement costs. The department has not initiated any legal or administrative action against the contractor to recover any costs, nor has the contractor agreed to pay these costs. The department cannot start any recovery process until the project is completed. Finally, even if the department eventually is able to obtain reimbursement from the contractor to pay the additional costs, the total expenditures would not be reduced. Any money obtained would be classified as revenue under state accounting policy.

The department's action is not in compliance with state accounting policy. As a result of this transaction, General Fund expenditures for fiscal 1999-2000 are understated by \$466,420 and the General Fund balance and accounts receivable are overstated by the same amount at June 30, 2000.

### **Recommendation #1**

**We recommend the department record expenditure abatements and receivables in compliance with state accounting policy.**

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### **Fixed Asset Recording Errors**

Fixed assets are major asset items such as land, buildings, and high-cost equipment. These assets are generally defined as having a useful life of more than one year and original cost of \$5,000 or more. State accounting policies discuss the procedures to account for fixed assets in compliance with generally accepted accounting principles (GAAP). Under state policy, fixed assets of governmental funds (General, Special Revenue) are recorded in a separate General Fixed Asset Account Group. The fixed assets of proprietary funds (Enterprise or Internal Service) are recorded in the specific fund. The state has implemented a separate subsystem within the Statewide Accounting, Budgeting and Human Resources System (SABHRS) called Asset Management to record and account

## **Findings and Recommendations**

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for fixed assets in compliance with state accounting policy and GAAP.

During our audit we noted several instances of errors or misstatements in the accounting records related to fixed assets. We noted instances where the department failed to properly record new equipment purchased and did not make corrections for classification errors noted. During fiscal year 1999-2000, the department did not record all purchases of major equipment on the Asset Management System as required by state accounting policy. In some instances, the department attempted to record the purchase; however, it was not recorded for the proper amount. For example, we noted a photocopier was incorrectly recorded for \$116,760. The correct value should have been \$11,676. As a result of not properly recording fiscal year 1999-2000 equipment purchases, the Asset Management System balance is understated by \$316,295.

The department attempted to correct its fixed asset records by transferring an asset from the General Fixed Account Group to the Enterprise Fund in order to properly reflect use and ownership of the asset. The asset was properly transferred on the Asset Management System, but due to a coding error, it was not corrected on the general ledger. The coding error resulted in expenditures of \$28,280 being recorded in the General Fixed Asset Account Group. In accordance with GAAP, the Fixed Asset Account Group should not reflect any expenditure activity. As a result of this coding error, the financial schedules improperly reflect expenditure activity in the Fixed Asset Account Group and the general ledger accounting records do not agree to the Asset Management System.

Department of Administration personnel compared the balances from Asset Management to the general ledger for fiscal year 1999-2000 and in a memo dated June 6, 2000, notified the department of incorrect balances or improper fixed asset classifications and requested the department make corrections prior to the end of fiscal year 1999-2000. We determined the department did not investigate or make any corrections to ensure the general ledger and Asset Management were in agreement. Some of the errors noted in the

## Findings and Recommendations

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memo from the Department of Administration to the department included:

1. During the conversion to SABHRS, \$2,403,722 of land was incorrectly recorded as equipment. On the general ledger, land is understated and equipment is overstated. The general ledger does not agree to Asset Management by these amounts.
2. The beginning balance for other improvements on the general ledger is \$561,693 lower than the balance on Asset Management.
3. The beginning balance for construction work in progress on the general ledger is \$352,506 higher than the balance on Asset Management.

Procedures should be in place to ensure that the general ledger and Asset Management balances agree as required by state accounting policy. Adequate supervision and analytical review procedures should have detected these errors.

### **Recommendation #2**

**We recommend the department:**

- A. Implement procedures to ensure fixed assets are recorded in compliance with state accounting policy.**
- B. Improve supervisory review and analytical procedures to detect asset recording errors.**

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### **Incorrect Recording of Advances**

Under the authority of the Regional Correctional Facility Act (sections 53-30-501 through 511, MCA), the department agreed to provide an advance to Dawson County to help fund the start-up costs of the Glendive Regional Jail in August 1998. The advance was to be a prepayment of the department's future costs of holding inmates at the Glendive facility. The advance would be repaid by reducing a portion of the monthly room and board charges submitted by the

## **Findings and Recommendations**

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Glendive facility for holding state inmates. We noted several concerns regarding the department's accounting for the advance and the related room and board charges.

The initial advance of \$1,166,400 to Dawson County was established as a prepaid expense. Subsequent payments to the county totaling \$503,320 were recorded as expenditures, when in fact some of this was additional advances to the county. In July 1999 the department and Dawson County entered into an agreement which provided that, of the monthly per diem or room and board charges submitted by the county, \$29,268 would be recorded as the counties' repayment of the advance amount.

In consultation with the department's accounting bureau chief, we determined that as of June 30, 1999, actual payments to Dawson County for the regional prison exceed the amount of room and board charges earned by the county by \$702,450. This amount represents the correct balance of the prepaid expense account and should have been recorded on the department's accounting records. However, the recorded balance for the prepaid expense was only \$411,800. The difference of \$290,650 was incorrectly recorded as room and board expenditures in fiscal year 1998-99. The prepaid expense balance is understated at June 30, 1999, by \$290,650, fiscal year 1998-99 room and board expenditures are overstated by \$290,650, and fiscal year 1999-2000 expenditures are understated by the same amount.

During fiscal 1999-2000 the May and June amounts related to the \$29,268 monthly repayment activity were incorrectly recorded against the general ledger advance account instead of the prepaid account balance. As a result the general ledger advance account is understated and the prepaid expense balance for Dawson County is overstated by \$58,536 at June 30, 2000.

The proper method to account for the monthly room and board charges submitted by the county would be to record the entire amount of the monthly county invoice as room and board expenditures, the offsetting entries would reduce the advance

## Findings and Recommendations

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account by \$29,268, and pay the remaining amount to Dawson County.

### **Recommendation #3**

**We recommend the department implement procedures to ensure financial activity related to the Dawson County regional prison is properly recorded.**

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### **Inactive, Continuing Balances**

The department's accounting records contain several instances of inactive or incorrect account balances. While examining the subsidiary detail ledger (SDL) records for the prepaid expense and other advances accounts, we noted one SDL balance of \$170 carried forward from fiscal year 1995-96; two SDLs totaling \$12,476 carried forward from fiscal year 1996-97; six SDLs totaling a negative \$48 carried forward from fiscal year 1997-98; and six SDLs totaling \$5,467 carried forward from fiscal year 1998-99. All of these SDL balances were still on the accounting records at fiscal year-end 2000. The department's subsequent research determined that these items were incorrectly expensed in prior years. The transactions should have been closed out to the prepaid or advance accounts in prior years. Periodic supervisory review of the SDLs should have detected these errors.

We noted nine old, inactive SDL balances related to property held in trust in the Agency Fund at the MSP. Three of the SDLs were initially recorded prior to fiscal year 1993-94. The accounting supervisor at MSP explained they establish a separate SDL each year in order to separately track each year's activity. Because MSP now records total additions and deductions to Agency Fund property held in trust each year rather than just the net amount, it is not necessary to retain the old SDLs.

## Findings and Recommendations

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### **Recommendation #4**

**We recommend the department properly eliminate inactive subsidiary detail ledgers on the accounting records.**

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### **Federal VOI/TIS Grant**

The department received a Violent Offender Incarceration and Truth-in-Sentencing Incentive Grant (VOI/TIS) from the U.S. Department of Justice (CFDA #16.586). During our two-year audit period, the department spent over \$3.9 million in grant funds. The majority of the expenditures occurred in fiscal year 1998-99 when the department provided funding for completion of a Joint Venture Regional Prison in Missoula County. Total design capacity of the facility was for 360 beds, of which 144 beds are in a separate pod for state prison inmates. Total costs of the state prison pod of the Missoula regional prison complex was \$5 million (\$4.5 million of federal grant funds and \$.5 million of state match).

During the audit we noted several concerns with department procedures related to the grant projects.

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### **Administration Costs**

The provisions of the VOI/TIS Grant allow the department to use up to three percent of the total formula grant award for costs associated with administration of the program. Section 17-3-111, MCA, requires the department to endeavor, to the fullest extent possible, to recover indirect costs of federal assistance programs.

Department employees stated the department wanted to maximize the amount of money available for construction and did not charge the grant for any direct or indirect administration costs. The department did not request any funding for administrative costs and stated in the grant application: "At this time, all funds are expected to be used for construction."

## Findings and Recommendations

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Based on the three percent limit, the department could have claimed up to almost \$116,000 in administrative costs based on total expenditures during the audit period. However, the department did not allocate any of its costs to the grant. Department employees stated their salaries are funded by the General Fund and they did not track the amount of time or effort they spent on the grant. They could not provide an estimate of the actual costs that should have qualified as administrative costs. As a result, the department is not in compliance with state law requiring indirect cost recoveries.

### **Recommendation #5**

**We recommend the department claim indirect costs to the fullest extent possible as required by state law.**

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### **Grant Monitoring Agreement**

The federal government imposes various compliance requirements upon the department when awarding a grant. The department is responsible to ensure it has met all the federal requirements. Since the inception of the VOI/TIS Grant, all of the funds have been used to help finance construction of regional prison facilities or new construction at the state prison facilities. Future plans call for the grant funds to partially finance the expansion of the Women's Prison in Billings. The Architecture & Engineering (A&E) Division of the Department of Administration is the agency which oversees the construction projects.

In each of our last two financial compliance audits of the Department of Administration (#99-14 and #97-14), we recommended the Department of Administration execute written agreements with each agency using federal funds on construction projects to clarify responsibilities for ensuring compliance with federal requirements. Personnel of the Architecture & Engineering Division stated they are not responsible for ensuring compliance with federal requirements unless the funding agency provides information about these



## Findings and Recommendations

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requirements. The written agreements would document the responsibilities and help reduce compliance problems.

In response to our audit recommendation, the Department of Administration sent a draft copy of an agreement to the department. The department's attorney reviewed the agreement and concluded the department should not sign the agreement. In a memo dated April 12, 2000, the attorney stated the following as his reasons to reject the agreement:

"I believe that we are attempting to identify the agency which will take compliance responsibility in contracts utilizing federal funds. As I understand these contracts, most compliance issues involve minority participation, equal opportunity considerations, etc., primarily in the area of contract awards. Because A&E is the entity which is responsible for the vast majority of the contract award, it would appear to me that they are in the best position to assume liability should an error arise. Therefore, it is my opinion that it would be silly to assume liability for A&E when we have no control over the contract award process."

If the department found some of the wording objectionable, it should have attempted to negotiate with A&E and modify the wording of the agreement it considered necessary. The department is ultimately responsible for compliance with any federal requirements because the VOI/TIS Grant is a direct grant to the department. The department does not lessen its responsibility for federal compliance requirements by claiming A&E is responsible for the contract award process. However, a formal written agreement would clarify the requirements and responsibilities and reduce the potential that the compliance requirements are overlooked or not followed.

### **Recommendation #6**

**We recommend the department execute a written agreement with the Department of Administration for construction projects using federal funds to clarify compliance responsibilities.**

## Findings and Recommendations

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### **Payroll Procedures**

During are audit we reviewed payroll procedures at the Central Office in Helena, the Montana State Prison (MSP) in Deer Lodge, the Montana Women's Prison (MWP) in Billings, and Pine Hills in Miles City.

We observed the department's inconsistent application of payroll processing procedures during our audit. The Central Office in Helena processes the payroll for employees at MWP in Billings, the Probation and Parole Offices throughout the state, and the Central Office. The employees at MWP record their time on time sheets and submit them to their supervisors for approval. The time sheets are mailed to Helena at the end of the pay period for processing. If an employee at MWP used sick or vacation leave but also worked overtime in the same pay period, payroll personnel in the Central Office will change the time sheet. The leave will be canceled up to the overtime hours recorded on the time sheet in order to minimize the total overtime hours the employee will be paid. Payroll personnel in Helena explained the time sheets are changed and leave is canceled to reduce total hours to 40 hours actually worked.

Pine Hills and MSP employees prepare and sign time sheets for approval by their supervisors. Payroll personnel at Pine Hills and MSP then enter the payroll into the SABHRS computer system and it is electronically submitted for processing. Pine Hills allows recorded sick and vacation hours to be included in the total hours recorded for the pay period. Overtime is determined based on total hours over 40 in a week. MSP is divided between the two methods depending upon who the supervisor is. The payroll technician at MSP said that some supervisors will approve the sick leave and others will not if total hours are more than 40 for the week.

Department policy provides payroll personnel several examples demonstrating how to calculate overtime if an employee has sick or vacation leave in the week. Since there are three different individuals processing payroll at the department, there are inconsistencies on how each of them are viewing the policy and examples. The supervisors also appear to have differing

## Findings and Recommendations

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understandings or interpretations of the policy for calculation or determination of overtime hours.

When the Central Office changes the approved time sheets, the employee and supervisor are not notified of the changes, nor are they informed of the reason for the changes. The lack of communication impedes the understanding or clarification of the policy by the employees and supervisors. Changing the time sheet may nullify the employee's and supervisor's signatures on the time sheet certifying that it is an accurate reflection of hours worked and leave taken.

### **Recommendation #7**

**We recommend the department clarify its policies for recording leave and the determination of overtime and explain the policies to all employees to ensure consistent payroll processing.**

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### **Department Compliance Issues**

During our audit we noted several instances where the department is not in compliance with state law or its formal policies. The following sections discuss instances of noncompliance.

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### **Limits on Inmate Financial Transactions**

Inmates may accumulate money from family gifts, sale of hobby items, or wages from prison jobs. Section 53-1-107, MCA, limits the amount of money inmates are allowed to accumulate in the prison inmate trust account administered by the department. The law states: "If an inmate accumulates a balance in excess of \$200 in the inmate's prison inmate trust account, the excess must, consistent with department rules, be forfeited for the payment of restitution or costs of incarceration." The department may charge a minimum fee, not to exceed \$1.60 per month, to administer an inmate's account.

## Findings and Recommendations

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We determined the department is not in compliance with this law. We noted 80 of 1,285 inmate accounts which had balances in excess of \$200 as of July 3, 2000. The combined total excess amount in the 80 accounts was \$28,783. Department officials stated that to fully comply with the law, the department needed to upgrade the inmate account system to better control and monitor the individual balances and deductions. This was accomplished effective November 1999 when the department began using the new inmate accounting system.

The department also needs to develop rules or policies as specified by the law. Officials stated the department has a rough draft policy. Because of the complex nature of inmate earnings and expenses, department legal counsel is reviewing and assisting in the policy development. The priority of deductions for child support, restitution, legal fees, or other items needs to be established. Complexities include different pay rates. Some inmates are considered indigent while others earn over \$200 per month. Determination of restitution deduction rates and incarceration rates (room, board, and medical costs) were other complexities noted. The department officials stated the final policy should be adopted by December 2000. The law was enacted by the 1997 Legislature.

### **Recommendation #8**

**We recommend the department develop and implement policies to limit inmate financial transactions as required by state law.**

## Findings and Recommendations

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### Inmate Gate Money

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Section 53-30-111, MCA, provides in part: "An inmate discharged and delivered to the custody of the federal government or another state must receive \$5. All other discharged or paroled inmates may receive "gate money" in an amount up to \$100." The department has policies which address the requirements of state law. During our work at the Montana Women's Prison in Billings, we noted the policies are not being consistently followed. Inmates who are paroled were not always provided "gate money."

Department employees explained that staff turnover at the Women's Prison was the reason policies were not followed. The person currently responsible for gate money only makes a payment if the Probation and Parole Officers call and request a payment for the person being paroled.

#### **Recommendation #9**

**We recommend the department ensure policies for gate money are consistently followed at the Women's Prison.**

### Unsigned or Untimely Contracts

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In our prior audit report, we recommended the department modify its contracting procedures to ensure contracts are signed in a timely manner. The department concurred with the recommendation and replied that it had drafted a new policy related to contract procedures and would present it to the department's Policy Task Force in May, 1999.

During our current audit, we determined the department has not fully implemented the prior recommendation. We reviewed eight contracts and verified two of the eight were signed by the department administrator, legal counsel, and the contractor prior to the effective date of the contract. Four of the eight were signed within 1-2 months after the effective date, and two of the contracts were not signed until 4-5 months after the effective date of the contract. The Internal Auditor stated she had performed a review of

## **Findings and Recommendations**

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148 contracts and noted 54 were not signed within 30 days. As noted in the prior report, without signed contracts, there is no documented understanding of each party's rights and responsibilities for the work to be performed. The department may have significantly increased liability if it does not have signed contracts describing the responsibilities of contractors and the department.

The department provided us a draft copy of the contract policies. The original policy was dated May 1, 1996, and the draft was revised February 4 and April 3, 2000. As of August 31, 2000, the draft policy had not yet been approved by the Policy Task Force.

### **Recommendation #10**

**We recommend the department implement contracting policies and procedures which ensure contracts are signed in a timely manner.**

# **Independent Auditor's Report & Agency Financial Schedules**

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel  
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Corrections for each of the fiscal years ended June 30, 1999 and 2000. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Corrections for each of the fiscal years ended June 30, 1999 and 2000, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*(Signature on File)*

James Gillett, CPA  
Deputy Legislative Auditor

August 28, 2000



DEPARTMENT OF CORRECTIONS  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

|  | <u>General Fund</u>   | <u>Special<br/>Revenue Fund</u> | <u>Capital<br/>Projects Fund</u> | <u>Enterprise<br/>Fund</u> | <u>Internal Service<br/>Fund</u> | <u>Agency Fund</u> | <u>Fixed Asset<br/>Account<br/>Group</u> |
|--|-----------------------|---------------------------------|----------------------------------|----------------------------|----------------------------------|--------------------|--|
| FUND BALANCE: July 1, 1999                         | \$ (5,855,605)        | \$ 235,166                      | \$ 667,672                       | \$ 9,371,671               | \$ 121,875                       | \$ 0               | \$ 0                                     |
| PROPERTY HELD IN TRUST: July 1, 1999               |                       |                                 |                                  |                            |                                  | \$ 320,081         |  |
| ADDITIONS  |                       |                                 |                                  |                            |                                  |                    |  |
| Budgeted Revenues & Transfers-In                   |                       | 2,255,085                       | 25,268                           | 5,218,755                  | 418,331                          |                    |  |
| NonBudgeted Revenues & Transfers-In                | 484,954               | 844                             | 56                               | 340,007                    | 3,315                            |                    |  |
| Prior Year Revenues & Transfers-In Adjustments     | 94                    |                                 |                                  |                            |                                  |                    |  |
| Direct Entries to Fund Balance                     | 92,079,334            | 70,013                          |                                  | (75,307)                   |                                  |                    |  |
| Additions To Property Held in Trust                |                       |                                 |                                  |                            |                                  | 2,135,485          |  |
| Total Additions                                    | <u>92,564,382</u>     | <u>2,325,942</u>                | <u>25,325</u>                    | <u>5,483,455</u>           | <u>421,646</u>                   | <u>2,135,485</u>   |  |
| REDUCTIONS   |                       |                                 |                                  |                            |                                  |                    |  |
| Budgeted Expenditure & Transfers-Out               | 90,499,520            | 2,363,589                       | 592,162                          | 4,770,728                  | 404,169                          |                    |  |
| NonBudgeted Expenditure & Transfers-Out            | 319,690               |                                 | 100,386                          | 730,470                    | 43,156                           |                    | 28,280                                   |
| Prior Year Expenditure & Transfers-Out Adjustments | (543,998)             | (17,043)                        |                                  | 57,957                     |                                  |                    |  |
| Reductions in Property Held in Trust               |                       |                                 |                                  |                            |                                  | 2,100,892          |  |
| Total Reductions                                   | <u>90,275,212</u>     | <u>2,346,546</u>                | <u>692,548</u>                   | <u>5,559,155</u>           | <u>447,325</u>                   | <u>2,100,892</u>   | <u>28,280</u>                            |
| FUND BALANCE: June 30, 2000                        | \$ <u>(3,566,435)</u> | \$ <u>214,562</u>               | \$ <u>448</u>                    | \$ <u>9,295,971</u>        | \$ <u>96,196</u>                 | \$ <u>0</u>        | \$ <u>(28,280)</u>                       |
| PROPERTY HELD IN TRUST: June 30, 2000              |                       |                                 |                                  |                            |                                  | \$ <u>354,674</u>  |  |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF CORRECTIONS  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

|   | <u>General Fund</u>   | <u>Special<br/>Revenue Fund</u> | <u>Capital Projects<br/>Fund</u> | <u>Enterprise Fund</u> | <u>Internal Service<br/>Fund</u> | <u>Agency Fund</u> |
|---|-----------------------|---------------------------------|----------------------------------|------------------------|----------------------------------|--------------------|
| FUND BALANCE: July 1, 1998                          | \$ <u>(4,556,034)</u> | \$ <u>547,160</u>               | \$ <u>1,266,713</u>              | \$ <u>8,943,638</u>    | \$ <u>129,872</u>                | \$ <u>0</u>        |
| PROPERTY HELD IN TRUST: July 1, 1998                |                       |                                 |                                  |                        |                                  | \$ <u>230,851</u>  |
| ADDITIONS   |                       |                                 |                                  |                        |                                  |                    |
| Budgeted Revenues & Transfers-In                    |                       | 5,934,570                       |                                  | 4,669,772              | 297,454                          |                    |
| Nonbudgeted Revenues & Transfers-In                 | 181,138               |                                 | 50,853                           |                        |                                  |                    |
| Prior Year Revenues & Transfers-In Adjustments      | 1,446                 | (18,206)                        |                                  | 60                     |                                  |                    |
| Cash Transfers In (Out)                             | 80,214,601            | (4,165,883)                     |                                  | (232,222)              | (66,438)                         |                    |
| Direct Entries to Fund Balance                      | 165,821               | 3,455                           |                                  | (1,851)                |                                  |                    |
| Additions to Property Held in Trust                 |                       |                                 |                                  |                        |                                  | 2,012,155          |
| Total Additions                                     | <u>80,563,007</u>     | <u>1,753,936</u>                | <u>50,853</u>                    | <u>4,435,759</u>       | <u>231,016</u>                   | <u>2,012,155</u>   |
| REDUCTIONS  |                       |                                 |                                  |                        |                                  |                    |
| Budgeted Expenditures & Transfers-Out               | 81,967,155            | 2,083,576                       | 649,894                          | 4,400,567              | 346,007                          |                    |
| Nonbudgeted Expenditures & Transfers-Out            |                       |                                 |                                  | (365,637)              | (103,937)                        |                    |
| Prior Year Expenditures & Transfers-Out Adjustments | (104,578)             | (17,646)                        |                                  | (27,203)               | (3,057)                          |                    |
| Reductions to Property Held in Trust                |                       |                                 |                                  |                        |                                  | 1,922,925          |
| Total Reductions                                    | <u>81,862,578</u>     | <u>2,065,930</u>                | <u>649,894</u>                   | <u>4,007,727</u>       | <u>239,013</u>                   | <u>1,922,925</u>   |
| FUND BALANCE: June 30, 1999                         | \$ <u>(5,855,605)</u> | \$ <u>235,166</u>               | \$ <u>667,672</u>                | \$ <u>9,371,671</u>    | \$ <u>121,875</u>                | \$ <u>0</u>        |
| PROPERTY HELD IN TRUST: June 30, 1999               |                       |                                 |                                  |                        |                                  | \$ <u>320,081</u>  |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF CORRECTIONS  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

|   | <u>General Fund</u> | <u>Special<br/>Revenue Fund</u> | <u>Capital<br/>Projects Fund</u> | <u>Enterprise<br/>Fund</u> | <u>Internal Service<br/>Fund</u> | <u>Total</u>          |
|---|---------------------|---------------------------------|----------------------------------|----------------------------|----------------------------------|-----------------------|
| <b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>                           |                     |                                 |                                  |                            |                                  |                       |
| Taxes   | \$ 3,343            | \$ 844                          | \$ 9                             |                            |                                  | \$ 4,195              |
| Charges for Services  |                     | 512,527                         |                                  |                            |                                  | 512,527               |
| Investment Earnings   |                     |                                 | 25,316                           |                            |                                  | 25,316                |
| Sale of Documents, Merchandise and Property                                 | 3,492               | 742,493                         |                                  | \$ 5,558,762               | \$ 421,646                       | 6,726,393             |
| Miscellaneous   | 158,523             |                                 |                                  |                            |                                  | 158,523               |
| Other Financing Sources   | 319,690             | 299,920                         |                                  |                            |                                  | 619,610               |
| Federal   |                     | 700,146                         |                                  |                            |                                  | 700,146               |
| Total Revenues & Transfers-In   | <u>485,048</u>      | <u>2,255,929</u>                | <u>25,325</u>                    | <u>5,558,762</u>           | <u>421,646</u>                   | <u>8,746,709</u>      |
| Less: Nonbudgeted Revenues & Transfers-In Adjustments                       | 484,954             | 844                             | 56                               | 340,007                    | 3,315                            | 829,175               |
| Prior Year Revenues & Transfers-In Adjustments                              | <u>94</u>           | <u>0</u>                        | <u>0</u>                         | <u>0</u>                   | <u>0</u>                         | <u>94</u>             |
| Actual Budgeted Revenues & Transfers-In                                     | 0                   | 2,255,085                       | 25,268                           | 5,218,755                  | 418,331                          | 7,917,440             |
| Estimated Revenues & Transfers-In   | 0                   | 5,251,539                       | 0                                | 4,028,115                  | 410,524                          | 9,690,178             |
| Budgeted Revenues & Transfers-In Over (Under) Estimated                     | <u>\$ 0</u>         | <u>\$ (2,996,454)</u>           | <u>\$ 25,268</u>                 | <u>\$ 1,190,640</u>        | <u>\$ 7,807</u>                  | <u>\$ (1,772,738)</u> |
| <b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b> |                     |                                 |                                  |                            |                                  |                       |
| Charges for Services  |                     | \$ 95,022                       |                                  |                            |                                  | 95,022                |
| Investment Earnings   |                     |                                 | \$ 25,268                        |                            |                                  | 25,268                |
| Sale of Documents, Merchandise and Property                                 |                     | (263,365)                       |                                  | \$ 1,190,640               | \$ 7,807                         | 935,082               |
| Other Financing Sources   |                     | 31,486                          |                                  |                            |                                  | 31,486                |
| Federal   | \$                  | (2,859,596)                     |                                  |                            |                                  | (2,859,596)           |
| Budgeted Revenues & Transfers-In Over (Under) Estimated                     | <u>\$ 0</u>         | <u>\$ (2,996,454)</u>           | <u>\$ 25,268</u>                 | <u>\$ 1,190,640</u>        | <u>\$ 7,807</u>                  | <u>\$ (1,772,738)</u> |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF CORRECTIONS  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

|   | <u>General Fund</u> | <u>Special<br/>Revenue Fund</u> | <u>Capital Projects<br/>Fund</u> | <u>Enterprise Fund</u> | <u>Internal Service<br/>Fund</u> | <u>Total</u>          |
|---|---------------------|---------------------------------|----------------------------------|------------------------|----------------------------------|-----------------------|
| <b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>                           |                     |                                 |                                  |                        |                                  |                       |
| Charges for Services  |                     | \$ 310,207                      |                                  |                        |                                  | \$ 310,207            |
| Investment Earnings   |                     |                                 | \$ 50,853                        |                        |                                  | 50,853                |
| Sale of Documents, Merchandise and Property                                 |                     | 717,293                         |                                  | \$ 4,669,832           | \$ 297,454                       | 5,684,578             |
| Miscellaneous   | \$ 182,584          |                                 |                                  |                        |                                  | 182,584               |
| Grants, Contracts, Donations and Abandonments                               |                     | 1,150                           |                                  |                        |                                  | 1,150                 |
| Other Financing Sources   |                     | 288,878                         |                                  |                        |                                  | 288,878               |
| Federal   |                     | 4,598,835                       |                                  |                        |                                  | 4,598,835             |
| Total Revenues & Transfers-In   | <u>182,584</u>      | <u>5,916,363</u>                | <u>50,853</u>                    | <u>4,669,832</u>       | <u>297,454</u>                   | <u>11,117,087</u>     |
| Less: Nonbudgeted Revenues & Transfers-In                                   | 181,138             |                                 | 50,853                           |                        |                                  | 231,991               |
| Prior Year Revenues & Transfers-In Adjustments                              | <u>1,446</u>        | <u>(18,206)</u>                 |                                  | <u>60</u>              |                                  | <u>(16,700)</u>       |
| Actual Budgeted Revenues & Transfers-In                                     | 0                   | 5,934,570                       | 0                                | 4,669,772              | 297,454                          | 10,901,795            |
| Estimated Revenues & Transfers-In   |                     | 10,399,729                      |                                  | 5,040,000              | 340,028                          | 15,779,757            |
| Budgeted Revenues & Transfers-In Over (Under) Estimated                     | <u>\$ 0</u>         | <u>\$ (4,465,159)</u>           | <u>\$ 0</u>                      | <u>\$ (370,228)</u>    | <u>\$ (42,574)</u>               | <u>\$ (4,877,962)</u> |
| <b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b> |                     |                                 |                                  |                        |                                  |                       |
| Charges for Services  |                     | \$ (40)                         |                                  |                        |                                  | \$ (40)               |
| Sale of Documents, Merchandise and Property                                 |                     | (207)                           |                                  | \$ (370,228)           | \$ (42,574)                      | (413,010)             |
| Grants, Contracts, Donations and Abandonments                               |                     | (350)                           |                                  |                        |                                  | (350)                 |
| Other Financing Sources   |                     | (72)                            |                                  |                        |                                  | (72)                  |
| Federal   |                     | (4,464,490)                     |                                  |                        |                                  | (4,464,490)           |
| Budgeted Revenues & Transfers-In Over (under) Estimated                     | <u>\$ 0</u>         | <u>\$ (4,465,159)</u>           | <u>\$ 0</u>                      | <u>\$ (370,228)</u>    | <u>\$ (42,574)</u>               | <u>\$ (4,877,962)</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF CORRECTIONS  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

|   | Program<br>(Subclass)<br>Not<br>Specified | Admin And<br>Support<br>Services | Community<br>Corrections | Secure<br>Facilities | Mont.<br>Correctional<br>Enterprises | Total                |
|---|---|----------------------------------|--------------------------|----------------------|--------------------------------------|----------------------|
| PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT     |   |                                  |                          |                      |                                      |                      |
|   | See note 4                                |                                  |                          |                      |                                      |                      |
| Personal Services                                   |   |                                  |                          |                      |                                      |                      |
| Salaries  |   | \$ 5,044,781                     | \$ 7,414,570             | \$ 16,734,602        | \$ 1,700,621                         | \$ 30,894,573        |
| Hourly Wages  |   | 25,504                           |                          | 308,854              | 443,592                              | 777,950              |
| Other Compensation                                  |   | 13,150                           |                          |                      |                                      | 13,150               |
| Employee Benefits                                   |   | 1,320,442                        | 2,287,409                | 5,016,276            | 491,947                              | 9,116,073            |
| Personal Services-Other                             | \$ 19,081                                 |                                  |                          |                      |                                      | 19,081               |
| Total   | <u>19,081</u>                             | <u>6,403,877</u>                 | <u>9,701,979</u>         | <u>22,059,731</u>    | <u>2,636,159</u>                     | <u>40,820,827</u>    |
| Operating Expenses                                  |   |                                  |                          |                      |                                      |                      |
| Other Services                                      |   | 4,513,263                        | 11,536,502               | 15,882,030           | 66,118                               | 31,997,912           |
| Supplies & Materials                                |   | 1,503,381                        | 563,159                  | 3,474,797            | 2,631,687                            | 8,173,024            |
| Communications                                      |   | 161,839                          | 297,619                  | 151,494              | 22,035                               | 632,988              |
| Travel  |   | 202,112                          | 158,260                  | 233,499              | 27,707                               | 621,576              |
| Rent  |   | 266,992                          | 903,873                  | 97,396               | 21,363                               | 1,289,624            |
| Utilities   |   | 8,505                            | 70,610                   | 791,180              | 157,495                              | 1,027,790            |
| Repair & Maintenance                                |   | 72,668                           | 71,136                   | 751,627              | 344,715                              | 1,240,146            |
| Other Expenses                                      | 786,694                                   | 411,314                          | 69,920                   | 150,526              | 548,936                              | 1,967,389            |
| Goods Purchased for Resale                          |   | 35                               |                          | 691,209              | 961,339                              | 1,652,583            |
| Total   | <u>786,694</u>                            | <u>7,140,109</u>                 | <u>13,671,079</u>        | <u>22,223,757</u>    | <u>4,781,394</u>                     | <u>48,603,032</u>    |
| Equipment & Intangible Assets                       |   |                                  |                          |                      |                                      |                      |
| Equipment   | (118,318)                                 | 230,552                          | 68,996                   | 400,951              | 315,161                              | 897,342              |
| Installment Purchases-Equip-NB                      | 319,690                                   |                                  |                          |                      |                                      | 319,690              |
| Total   | <u>201,372</u>                            | <u>230,552</u>                   | <u>68,996</u>            | <u>400,951</u>       | <u>315,161</u>                       | <u>1,217,032</u>     |
| Capital Outlay                                      |   |                                  |                          |                      |                                      |                      |
| Buildings   | (48,574)                                  |                                  |                          |                      |                                      | (48,574)             |
| Total   | <u>(48,574)</u>                           | <u>0</u>                         | <u>0</u>                 | <u>0</u>             | <u>0</u>                             | <u>(48,574)</u>      |
| Grants  |   |                                  |                          |                      |                                      |                      |
| From State Sources                                  |   |                                  |                          | 30,218               |                                      | 30,218               |
| Total   | <u>0</u>                                  | <u>0</u>                         | <u>0</u>                 | <u>30,218</u>        | <u>0</u>                             | <u>30,218</u>        |
| Benefits & Claims                                   |   |                                  |                          |                      |                                      |                      |
| From State Sources                                  |   |                                  | 8,072,717                | 251,462              |                                      | 8,324,179            |
| From Federal Sources                                |   |                                  | 159,028                  | 59,850               |                                      | 218,878              |
| Total   | <u>0</u>                                  | <u>0</u>                         | <u>8,231,745</u>         | <u>311,312</u>       | <u>0</u>                             | <u>8,543,057</u>     |
| Transfers   |   |                                  |                          |                      |                                      |                      |
| Accounting Entity Transfers                         | 100,386                                   |                                  |                          |                      |                                      | 100,386              |
| Total   | <u>100,386</u>                            | <u>0</u>                         | <u>0</u>                 | <u>0</u>             | <u>0</u>                             | <u>100,386</u>       |
| Debt Service  |   |                                  |                          |                      |                                      |                      |
| Leases  |   | 8,204                            | 42,809                   | 32,075               |                                      | 83,088               |
| Total   | <u>0</u>                                  | <u>8,204</u>                     | <u>42,809</u>            | <u>32,075</u>        | <u>0</u>                             | <u>83,088</u>        |
| Total Expenditures & Transfers-Out                  | <u>\$ 1,058,958</u>                       | <u>\$ 13,782,742</u>             | <u>\$ 31,716,607</u>     | <u>\$ 45,058,044</u> | <u>\$ 7,732,715</u>                  | <u>\$ 99,349,065</u> |
| EXPENDITURES & TRANSFERS-OUT BY FUND                |   |                                  |                          |                      |                                      |                      |
| General Fund  | \$ 319,690                                | \$ 13,119,128                    | \$ 30,888,628            | \$ 43,575,084        | \$ 2,372,681                         | \$ 90,275,212        |
| Special Revenue Fund                                |   | 18,614                           | 827,979                  | 1,482,959            | 16,993                               | 2,346,546            |
| Capital Projects Fund                               | 100,386                                   | 592,162                          |                          |                      |                                      | 692,548              |
| Enterprise Fund                                     | 595,727                                   | 48,907                           |                          |                      | 4,914,521                            | 5,559,155            |
| Internal Service Fund                               | 43,156                                    | 3,930                            |                          |                      | 400,239                              | 447,325              |
| Fixed Asset Account Group                           |   |                                  |                          |                      | 28,280                               | 28,280               |
| Total Expenditures & Transfers-Out                  | <u>1,058,958</u>                          | <u>13,782,742</u>                | <u>31,716,607</u>        | <u>45,058,044</u>    | <u>7,732,715</u>                     | <u>99,349,065</u>    |
| Less: Nonbudgeted Expenditures & Transfers-Out      | 1,058,958                                 |                                  |                          |                      | 163,024                              | 1,221,982            |
| Prior Year Expenditures & Transfers-Out Adjustments |   | (164,237)                        | (289,602)                | (107,203)            | 57,957                               | (503,084)            |
| Actual Budgeted Expenditures & Transfers-Out        |   | <u>13,946,978</u>                | <u>32,006,209</u>        | <u>45,165,246</u>    | <u>7,511,734</u>                     | <u>98,630,168</u>    |
| Budget Authority                                    |   | <u>14,048,354</u>                | <u>32,224,191</u>        | <u>45,635,367</u>    | <u>8,891,835</u>                     | <u>100,799,747</u>   |
| Unspent Budget Authority                            | <u>\$</u>                                 | <u>\$ 101,376</u>                | <u>\$ 217,982</u>        | <u>\$ 470,121</u>    | <u>\$ 1,380,101</u>                  | <u>\$ 2,169,580</u>  |
| UNSPENT BUDGET AUTHORITY BY FUND                    |   |                                  |                          |                      |                                      |                      |
| General Fund  |   | \$ 62,440                        | \$ 151,363               | \$ 293,979           | \$ 747,623                           | \$ 1,255,404         |
| Special Revenue Fund                                |   | 35,774                           | 66,619                   | 176,143              |                                      | 278,535              |
| Capital Projects Fund                               |   | 848                              |                          |                      |                                      | 848                  |
| Enterprise Fund                                     |   | 2,101                            |                          |                      | 577,893                              | 579,994              |
| Internal Service Fund                               |   | 213                              |                          |                      | 54,585                               | 54,798               |
| Unspent Budget Authority                            | <u>\$ 0</u>                               | <u>\$ 101,376</u>                | <u>\$ 217,982</u>        | <u>\$ 470,121</u>    | <u>\$ 1,380,101</u>                  | <u>\$ 2,169,580</u>  |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

**DEPARTMENT OF CORRECTIONS**  
**SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

|   | Admin And<br>Support<br>Services | Community<br>Corrections | Secure Facilities    | Mont<br>Correctional<br>Enterprises | Total                |
|---|----------------------------------|--------------------------|----------------------|-------------------------------------|----------------------|
| <b>PROGRAM EXPENDITURES &amp; TRANSFERS-OUT</b>     |                                  |                          |                      |                                     |                      |
| Personal Services                                   |                                  |                          |                      |                                     |                      |
| Salaries  | \$ 4,510,033                     | \$ 6,479,952             | \$ 16,069,445        | \$ 1,452,989                        | \$ 28,512,419        |
| Hourly Wages  | 31,530                           | (12)                     | 323,964              | 309,572                             | 665,055              |
| Other Compensation                                  | 12,550                           |                          | 117                  |                                     | 12,667               |
| Employee Benefits                                   | 1,238,859                        | 2,030,555                | 4,897,107            | 419,697                             | 8,586,218            |
| Personal Services-Other                             |                                  |                          |                      | 4,717                               | 4,717                |
| Total   | <u>5,792,972</u>                 | <u>8,510,495</u>         | <u>21,290,633</u>    | <u>2,186,975</u>                    | <u>37,781,075</u>    |
| Operating Expenses                                  |                                  |                          |                      |                                     |                      |
| Other Services                                      | 5,663,127                        | 9,982,032                | 13,966,893           | 67,729                              | 29,679,782           |
| Supplies & Materials                                | 1,298,336                        | 435,042                  | 2,994,491            | 1,383,589                           | 6,111,458            |
| Communications                                      | 209,977                          | 273,706                  | 126,179              | 16,186                              | 626,048              |
| Travel  | 171,482                          | 119,739                  | 200,665              | 22,254                              | 514,140              |
| Rent  | 217,534                          | 654,969                  | 104,538              | 16,531                              | 993,572              |
| Utilities   | 6,165                            | 77,922                   | 753,614              | 134,144                             | 971,845              |
| Repair & Maintenance                                | 79,418                           | 122,869                  | 712,155              | 314,583                             | 1,229,025            |
| Other Expenses                                      | 244,105                          | 87,628                   | 128,156              | 262,523                             | 722,412              |
| Goods Purchased For Resale                          |                                  |                          | 659,364              | 1,020,548                           | 1,679,912            |
| Total   | <u>7,890,144</u>                 | <u>11,753,907</u>        | <u>19,646,056</u>    | <u>3,238,088</u>                    | <u>42,528,194</u>    |
| Equipment & Intangible Assets                       |                                  |                          |                      |                                     |                      |
| Equipment   | 98,195                           | 21,683                   | 68,266               |                                     | 188,144              |
| Total   | <u>98,195</u>                    | <u>21,683</u>            | <u>68,266</u>        |                                     | <u>188,144</u>       |
| Capital Outlay                                      |                                  |                          |                      |                                     |                      |
| Buildings   |                                  |                          |                      | (352,506)                           | (352,506)            |
| Other Improvements                                  |                                  |                          |                      | (1)                                 | (1)                  |
| Total   |                                  |                          |                      | <u>(352,507)</u>                    | <u>(352,507)</u>     |
| Grants  |                                  |                          |                      |                                     |                      |
| From State Sources                                  |                                  |                          | 15,795               |                                     | 15,795               |
| Total   |                                  |                          | <u>15,795</u>        |                                     | <u>15,795</u>        |
| Benefits & Claims                                   |                                  |                          |                      |                                     |                      |
| To Individuals                                      |                                  |                          | 6,846                |                                     | 6,846                |
| From State Sources                                  |                                  | 8,312,716                | 154,190              |                                     | 8,466,905            |
| From Federal Sources                                |                                  | 114,972                  |                      |                                     | 114,972              |
| Total   |                                  | <u>8,427,687</u>         | <u>161,036</u>       |                                     | <u>8,588,723</u>     |
| Debt Service  |                                  |                          |                      |                                     |                      |
| Leases  | 4,427                            | 39,216                   | 32,075               |                                     | 75,717               |
| Total   | <u>4,427</u>                     | <u>39,216</u>            | <u>32,075</u>        |                                     | <u>75,717</u>        |
| Total Expenditures & Transfers-Out                  | <u>\$ 13,785,737</u>             | <u>\$ 28,752,989</u>     | <u>\$ 41,213,860</u> | <u>\$ 5,072,556</u>                 | <u>\$ 88,825,141</u> |
| <b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>     |                                  |                          |                      |                                     |                      |
| General Fund  | \$ 13,068,810                    | \$ 28,127,789            | \$ 39,787,131        | \$ 878,849                          | \$ 81,862,578        |
| Special Revenue Fund                                | 14,001                           | 625,200                  | 1,426,729            |                                     | 2,065,930            |
| Capital Projects Fund                               | 649,894                          |                          |                      |                                     | 649,894              |
| Enterprise Fund                                     | 49,476                           |                          |                      | 3,958,251                           | 4,007,727            |
| Internal Service Fund                               | 3,556                            |                          |                      | 235,457                             | 239,013              |
| Program Expenditures & Transfers-Out                | <u>13,785,737</u>                | <u>28,752,989</u>        | <u>41,213,860</u>    | <u>5,072,556</u>                    | <u>88,825,141</u>    |
| Less: Nonbudgeted Expenditures & Transfers-Out      |                                  |                          |                      | (469,574)                           | (469,574)            |
| Prior Year Expenditures & Transfers-Out Adjustments | 196,269                          | (264,940)                | (53,552)             | (30,261)                            | (152,485)            |
| Actual Budgeted Expenditures & Transfers-Out        | <u>13,589,468</u>                | <u>29,017,929</u>        | <u>41,267,412</u>    | <u>5,572,390</u>                    | <u>89,447,199</u>    |
| Budget Authority                                    | 14,600,368                       | 29,228,567               | 41,583,897           | 8,740,570                           | 94,153,403           |
| Unspent Budget Authority                            | <u>\$ 1,010,901</u>              | <u>\$ 210,638</u>        | <u>\$ 316,485</u>    | <u>\$ 3,168,180</u>                 | <u>\$ 4,706,203</u>  |
| <b>UNSPENT BUDGET AUTHORITY BY FUND</b>             |                                  |                          |                      |                                     |                      |
| General Fund  | \$ 375,875                       | \$ 11,443                | \$ 262,237           | \$ 3,708                            | \$ 653,264           |
| Special Revenue Fund                                | 42,015                           | 199,194                  | 54,248               |                                     | 295,458              |
| Capital Projects Fund                               | 593,010                          |                          |                      |                                     | 593,010              |
| Enterprise Fund                                     |                                  |                          |                      | 3,160,310                           | 3,160,310            |
| Internal Service Fund                               |                                  |                          |                      | 4,161                               | 4,161                |
| Unspent Budget Authority                            | <u>\$ 1,010,901</u>              | <u>\$ 210,638</u>        | <u>\$ 316,485</u>    | <u>\$ 3,168,180</u>                 | <u>\$ 4,706,203</u>  |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.



# Notes to the Financial Schedules

## For the Two Fiscal Years Ended June 30, 2000

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### 1. **Summary of Significant Accounting Policies**

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#### **Basis of Accounting**

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The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Agency Funds. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for Proprietary Funds. Under the accrual basis, as defined by state accounting policy, department records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

#### **Basis of Presentation**

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The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment. (Consequently, these schedules do not agree in all cases

## Notes to the Financial Schedules

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to final state accounting system summary reports. These differences are explained in Note 4.)

Accounts are organized in funds according to state law. The department uses the following funds:

### Governmental Funds

**General Fund** - to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Fund** - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department Special Revenue Funds include federal assistance, supervision fees, inmate welfare/inmate pay, canteen activity, and donations.

**Capital Projects Fund** - to account for resources used for purchase or construction of major capital facilities. The department uses this fund to account for information technology bonds.

### Proprietary Funds

**Internal Service Fund** - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. Department Internal Service Funds include the Montana State Prison Industries Training Program.

**Enterprise Fund** - to account for operations: (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate. Department Enterprise Funds include the ranch and industries programs at the Montana State Prison and the industries program at the Montana Women's Prison.

## Notes to the Financial Schedules

### Fiduciary Funds

**Trust and Agency Funds** - to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Department fiduciary funds include moneys belonging to inmates of facilities.

- 2. General Fund Balance**

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 1999, and June 30, 2000.
- 3. Direct Entries to Fund Balance**

Direct entries to fund balance in the General Fund, Special Revenue, and Enterprise fund types in fiscal year 1999-2000 include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The majority of the \$92 million in the General Fund reflects appropriation authority (Cash Transfer).

Similar transactions are recorded in the General Fund, Special Revenue, Enterprise, and Internal Service fund types as Cash Transfers in fiscal year 1998-99.
- 4. Expenditure Program (Sub-class)**

As part of the implementation of a new accounting system in fiscal year 1999-2000, state officials determined that a sub-class designation would identify the program to which an expenditure should be charged. State officials did not require nonbudgeted expenditure transactions to be identified to a sub-class. The program designations in the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2000, are based on the sub-class designation used when the expenditures were recorded. The accounting system did not require agencies to code nonbudgeted accounts with a subclass code identifying the expenditure program in which the activity occurred. This nonbudgeted activity is included in the column titled program (sub-class) not identified on the Schedule of Total Expenditures & Transfers-Out for the Fiscal Year

## Notes to the Financial Schedules

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Ended June 30, 2000. The following details the total nonbudgeted activity reflected in the "Program (Sub-class) Not Specified" column.

|                   |  |
|-------------------|--|
| \$ 19,081         | <u>Personal Service - Other</u> reflects costs associated with the change in compensated absences for the Montana Correctional Enterprises program.      |
| \$786,694         | <u>Other Expenses</u> represents the depreciation expenses and change in inventories for the Montana Correctional Enterprises program operations.        |
| \$319,690         | <u>Equipment Expenditures</u> represent the recording of an installment purchase of computer equipment in the Secure Facilities program.                 |
| (\$118,318)       | <u>Equipment Expenditures</u> represent the capitalization of equipment purchases for the Montana Correctional Enterprises program.                      |
| (\$48,574)        | <u>Capital Outlay - Buildings</u> is related to Montana Correctional Enterprises program construction costs.   |
| \$100,386         | <u>Accounting Entity Transfers</u> from the Administration and Support Services program for interest costs associated with capital project construction. |
| <hr/> \$1,058,959 | Total  |

## **Agency Response**



# DEPARTMENT OF CORRECTIONS



MARC RACICOT, GOVERNOR

1539 11TH AVENUE

STATE OF MONTANA

(406) 444-3930  
FAX: (406) 444-4920

PO BOX 201301  
HELENA, MONTANA 59620-1301

December 1, 2000

RE: Response to Legislative Audit Recommendations

Mr. Scott A. Seacat  
Legislative Auditor  
Legislative Audit Division  
Room 135, State Capitol  
PO Box 201705  
Helena MT 59620-1705

Dear Mr. Seacat:

Thank you for the opportunity to respond to the financial-compliance audit report of the Department of Corrections. We have reviewed the recommendations, and the department concurs with the findings of the audit report. Our responses to each recommendation follow:

RECOMMENDATION # 1:

WE RECOMMEND THE DEPARTMENT RECORD EXPENDITURE ABATEMENTS AND RECEIVABLES IN COMPLIANCE WITH STATE ACCOUNTING POLICY.

Response: We concur. The department will review the accounting activity and make appropriate adjustments during fiscal year 2000-01.

RECOMMENDATION # 2:

WE RECOMMEND THE DEPARTMENT:

- A. IMPLEMENT PROCEDURES TO ENSURE FIXED ASSETS ARE RECORDED IN COMPLIANCE WITH STATE ACCOUNTING POLICY.
- B. IMPROVE SUPERVISORY REVIEW AND ANALYTICAL PROCEDURES TO DETECT ASSET RECORDING ERRORS.

Response: We concur. The department has re-allocated resources to ensure one employee is responsible for general ledger activity and asset management. The department will also establish procedures to ensure internal controls are established over this activity. These procedures will include analytical procedures.

RECOMMENDATION # 3:

WE RECOMMEND THE DEPARTMENT IMPLEMENT PROCEDURES TO ENSURE FINANCIAL ACTIVITY RELATED TO DAWSON COUNTY REGIONAL PRISON IS PROPERLY RECORDED.

Response: We concur. The department corrected this activity on the accounting records in fiscal year 1999-2000.

RECOMMENDATION # 4:

WE RECOMMEND THE DEPARTMENT PROPERLY ELIMINATE INACTIVE SUBSIDIARY DETAIL LEDGERS ON THE ACCOUNTING RECORDS.

Response: We concur. The department has identified the activity and will research and correct each item during fiscal year 2000-01.

RECOMMENDATION # 5:

WE RECOMMEND THE DEPARTMENT CLAIM INDIRECT COSTS TO THE FULLEST EXTENT POSSIBLE.

Response: We concur. The department agrees that it should make every effort to collect indirect costs to the fullest extent possible. The VOTIS projects are designed specifically for building additional secure care facilities. The department's grant award was limited based on the number of violent offenders in the system. Since the non-federal portion of the project was paid through a bond issuance, the department felt it was in best interest of the taxpayers if all of the federal assistance was applied to the actual building project and the department absorbed the costs associated with monitoring the construction projects.

RECOMMENDATION # 6:

WE RECOMMEND THE DEPARTMENT EXECUTE A WRITTEN AGREEMENT WITH THE DEPARTMENT OF ADMINISTRATION FOR CONSTRUCTION PROJECTS USING FEDERAL FUNDS TO CLARIFY RESPONSIBILITIES.

Response: We concur. The department has initiated negotiations with the Department of Administration and it anticipates having a signed agreement by the end of January 2001.

RECOMMENDATION # 7:

WE RECOMMEND THE DEPARTMENT CLARIFY ITS POLICIES FOR RECORDING LEAVE AND THE DETERMINATION OF OVERTIME AND EXPLAIN THE POLICIES TO ALL EMPLOYEES TO ENSURE CONSISTENT PAYROLL PROCESSING.

Response: We concur. The department had representatives from all the facilities and programs discuss the consistency of leave usage. Based on these discussions, several changes in policy were recommended. Most of these changes have been submitted to the department's policy task force.

RECOMMENDATION # 8:

WE RECOMMEND THE DEPARTMENT DEVELOP AND IMPLEMENT POLICIES TO LIMIT INMATE FINANCIAL TRANSACTIONS AS REQUIRED BY STATE LAW.

Response: We concur. The department has a committee reviewing these issues. One of the difficulties the department has encountered is the order of preference that must be given to inmate deductions. For example, do we pull the excess money before or after child support payments are collected. A draft policy will be provided to the director by December 31, 2000.

RECOMMENDATION # 9:

WE RECOMMEND THE DEPARTMENT ENSURE POLICIES FOR GATE MONEY ARE CONSISTENTLY FOLLOWED AT THE WOMEN'S PRISON.

Response: We concur. The Montana Women's Prison is now dispensing gate money in accordance with state law.



Mr. Seacat  
December 1, 2000  
Page 3

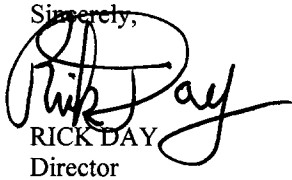
RECOMMENDATION # 10:

WE RECOMMEND THE DEPARTMENT IMPLEMENT CONTRACTING POLICIES AND PROCEDURES WHICH ENSURE CONTRACTS ARE SIGNED IN A TIMELY MANNER.

Response: We concur. The department has requested our internal auditor to review this process in more detail and make recommendations to improve the process.

Thank you again for your time. We wish to thank your staff for their suggestions for improving the effectiveness of the Department of Corrections and for their courtesy in working with our staff.

Sincerely,



RICK DAY  
Director

Enclosures

cc: Vickie Murphy, Internal Auditor, Department of Corrections

RD/vm/set

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